SUBMISSION

TO |

**AEMC**

**Investigation into intervention mechanisms and system strength in the NEM, draft rules**

October 2019

TOPIC |

DATE |

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Note: This submission does not include any confidential information

About Uniting Communities

Uniting Communities is an inclusive not-for-profit organisation working alongside more than 30,000 South Australians each year as they strive for bright futures and great lives. We value diversity and are committed to providing respectful, accessible services to all.

Uniting Communities seeks to reduce inequality and improve wellbeing for all who are striving to overcome disadvantage – individuals, their families and communities – so that they can realise their potential and live the best lives they can. We do this in a way that is non-judgemental, generous and supportive; that embrace diversity; and that values and promotes fairness, justice and the benefits of strong communities.

Our service delivery, advocacy and community building activities are central to achieving this.

We offer more than 90 services to support the needs of both individuals and our community, across a range of areas. These include mental health and counselling; residential aged care and support for independent living; housing crisis and emergency support; disability services; services for Aboriginal and Torres Strait Island people; financial and legal; drug and alcohol counselling; family relationships; and respite and carer support.

Uniting Communities also has extensive experience in dealing with energy markets, firstly through our service delivery and particularly through financial counselling where energy costs have been the most frequent presenting issue for clients over a number of years. We’ve also been an active participant in energy market debates as a participant in a wide range of market body activities for nearly 2 decades. Over recent years we have had a focus on promoting and encouraging much greater consumer and community engagement in energy policy debates and regulatory practice.

**Submission Summary**

Uniting Communities supports the intent and directions of the final report and of the two draft rules proposed by the AEMC in response to the final report regarding the interventions and compensation frameworks that was released on 15th August 2019

**Our Concerns**

The ACCC review of Australian Energy Prices released in mid-2018 identified achievable savings for Australian energy consumers for each NEM jurisdiction and summarised them in the table copies below.

Of relevant to this topic is that wholesale costs were the greatest source of achievable savings in all NEM jurisdictions except NSW, where wholesale cost savings came second. Clearly there are savings that consumers should be experiencing from lower wholesale costs. We recognise that compensation from intervention mechanisms is a modest component of wholesale costs, but there are material benefits that should flow to consumers from a more consumer centric compensation arrangement for compensation paid to generators who are “called in” by AEMO, the market operator.



In reviewing the final report of its investigation into the regulatory frameworks that govern the use of interventions in the National Electricity Market, Uniting Communities considers that the AEMC has heeded the concerns that we raided and has balanced the actual needs of generators impacted by interventions and consumers desperate for more affordable electricity. We note and commend the following decisions that the Commission has made in the final report:

* “Compensation for directed participants: The Commission considers there would be merit in a cost-based approach and the final report recommends changing the basis on which directed participant compensation is calculated. This would remove any inefficient incentives and ensure that directed participants can recover their costs as the 90th percentile price changes over time.
* Compensation for affected participants: Aligning the treatment of affected participants to the treatment of participants affected by constraints in the normal dispatch of the system, would reduce the cost to consumers of interventions.
* Counteractions: When AEMO intervenes in the market, the NER require it to minimise the number of affected participants and the impact on interconnector flows. This is done via counteraction instructions which are designed to confine the impact of an intervention to a single region. This requirement can conflict with another requirement on AEMO - that of minimising the cost of interventions. To remove this tension, the final report recommends that the counteraction obligation be removed. This would allow the NEM dispatch engine to optimise dispatch targets automatically (at least cost) in the wake of an intervention.
* Pricing during RERT events: Setting prices at the market price cap (MPC) is not considered appropriate given that the RERT may involve pre-activation periods and minimum run times, meaning the RERT may be activated for longer than is in fact required. This could impose significant costs on consumers and, if the cumulative price threshold is triggered, lead to scarcity signals being muted at the time they are most needed. As such, no change to the current arrangements is recommended.
* Mandatory restrictions Under state-based legislation: The final report recommends that provisions be removed so that, if restrictions are imposed, the market can operate as normal and participants can respond efficiently to price signals reflecting the actual supply demand balance. Removing these provisions removes the risk of unintended price outcomes, unnecessary costs to consumers, and unnecessary administrative costs to AEMO.”

It is noted that a few submissions called for greater transparency in using intervention mechanisms and the payment of compensation to directed and affected participants. We share this call and seek a reduction, as is practical, in the time lag between the occurrence of intervention events and the publication of the relevant AEMO report.

We also suggest that AEMC continue to monitor impacts of these proposals to ensure that consumers are paying no more than is necessary and efficient as compensation for market interventions, particularly over hot summer periods.

**The Two Draft Determinations**

In relation to the two draft determinations that were released for consultation, with the final report of the interventions and compensations frameworks, we make the following brief comments.

ERC0253 – Draft Rule Determination: National Electricity Amendment (Application of the regional reference node test to the Reliability and Emergency Reserve Trader) Rule 2019*:*

The proposed approach removes the implementation of intervention pricing in cases where there is no economic rationale for its use meaning that intervention pricing will not apply where there isn’t a relevant price signal to preserve. This is common sense and will reduce unwarranted costs to consumers in South Australia and, we’d expect, across the NEM.

Our submission in response to the consultation paper called for intervention pricing not to apply in connection with directions for services that are not traded in the market, since there is no relevant price signal to preserve. We agree with the Commission’s comments on page 24 of the Draft Rule Determination:

*“If the Commission's recommendation in the Final report to narrow eligibility for affected participant compensation were also to be actioned through a future rule change request, the end result would be that affected participant compensation would only be payable in limited circumstances - such as where AEMO directs a generator to provide energy or market ancillary services in response to region-wide scarcity (or localised scarcity which coincides with the regional reference node), thereby triggering intervention pricing. Affected participant compensation would not be payable in respect of directions for system strength or other security services.”*

The draft “more preferable rule” also extends the reach of the “regional reference node test” so that it applies to the Reliability and Emergency Reserve Trader as well to directions. This will mean that the higher costs associated with intervention pricing  are avoided when there is no case to apply intervention pricing in connection with activation of the RERT. This will reduce costs to consumers and so is consistent with our earlier submission and consequently supported.

ERC0255 -  Draft Rule Determination: National Electricity Amendment (Threshold for participant compensation following market intervention) Rule 2019:

The AEMC report recommends that AEMO submit a rule change request that would narrow eligibility for affected participant (AP) compensation to just the circumstances where intervention pricing applies, this would:

• reduce inconsistency as between directions and constraints,

• reduce costs to consumers,

AEMO has submitted a rule change request which seeks to amend the $5,000 per trading interval threshold which limits the amount of compensation payable to directed and affected participants, with the proposal to apply the threshold on a “per event” basis, not on a “trading interval” basis.

Currently, following an AEMO intervention an affected participant is automatically entitled to receive from or required to pay to AEMO an amount that puts it in the position that it would have been in had the intervention not occurred, but only if the amount payable exceeds $5,000 per trading interval. Directed participants automatically receive 90th percentile compensation, with no threshold applying. If a directed participant (DP) claims additional compensation, or an affected participant (AP) disputes its compensation or liability, they can lodge a claim. A threshold of $5,000 per trading interval applies to both DP and AP claims.

We recognise that the draft “more preferable” rule does not change how the $5,000 threshold applies to the payment of affected participant compensation. This is supported.

Given that the Commission has recommended that eligibility for affected participant compensation should be narrowed, it would not be appropriate to change the threshold in a manner that could result in a more than threefold increase in affected participant compensation costs to consumers. This is stated on page 25 of the draft determination:

*“ … the potential impact of adopting a per trading interval compensation threshold is not insignificant, potentially increasing net payments of affected participant compensation from around $2.05 million per annum to around $7.65 million (again, based on extrapolation from available data). This equates to more than a threefold increase in compensation costs recovered from market customers and, ultimately, consumers.”*

In our previous submission in response to the consultation paper, Uniting Communities said that affected participants can optimise their position with respect to compensation, and this is evidenced by the analysis in section 4.2.3 of the draft determination. This means that it is very important not to increase the amount of compensation paid to affected participants at the expense of consumers by changing the threshold in the manner proposed by AEMO’s rule change request. We retain the view that affected participant compensation should not be paid unless there is a clear and transparent case for it, an opinion that is shared by the Commission

“*The Commission also shares Uniting Communities’ concern that there is potential for participants to behave in a manner that is not in the best interests of consumers, and their view that affected participant compensation should not be paid where there is not a clear and transparent case for it. The Commission notes that the 2000 Review of directions by NEMMCO and NECA recommended that “third parties whose market dispatch is affected by a direction should be compensated so that their financial position is unaffected by the direction”*

The draft more preferable rule does propose a change to how the $5,000 threshold applies to directed participants. The draft rule applies the threshold per “direction” rather than per “trading interval”. While this may increase the cost to consumers associated with directed participant compensation, we accept that this is reasonable given that directed parties have no option but to comply with a direction, even if this results in them incurring financial loss. As noted in the submission to the consultation paper, Uniting Communities considers it appropriate that directed participants can recover their reasonable and efficient costs. It is also crucial that market interventions that are likely to result in increased costs for consumers are only utilised when all other options for necessary supply are exhausted.